



# Michigan Association of Retired School Personnel

Protecting your future

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## POINTS FOR CONSIDERATION REGARDING RETIREE HEALTH CARE OR PENSION REFORM

The Michigan Association of Retired School Personnel (**MARSP**) represents all retirees and is not associated with any union or other group. Our only interest is in the **preservation** of the retirement pension and health insurance programs for Michigan's retired school personnel. However the current fiscal concerns in the State of Michigan may cause proposed changes to be considered by the Legislature. The following positions are prepared in anticipation of some of the most "probable" suggestions.

### HEALTH CARE REFORM

#### Graded Premium

There is a need to implement the 90% Graded Premium legislation with the ten year minimum provision, with a 3% deduction for years less than 30. This has been proposed by the MPSERS Board, in order to **PRESERVE** the health insurance benefit for future retirees. *MARSP has supported this for several years, however, there is a concern for cooks, bus drivers, and others whose employment cannot meet the 1,020 hour annual requirement.*

#### MPSERS Health Care

There is little understanding or appreciation for the very excellent administration by ORS of the health insurance program and its consistent cost containment measures. Through changes in deductibles, co-pays, generic drug use, and formulary programs, costs have been controlled to a significant degree. The incorporation of provisions of the Medicare Modernization Act of 2003 has generated stipendiary income through Medicare D and the Advantage programs which brought more than \$100 million to relieve State costs. **As the Hay Report cited, if some of the cost containment measures used by MPSERS were applied to active employee programs, this would help to alleviate some of the educational budget problems. MARSP supports these cost control measures and urges their application to actives where appropriate.**

#### Prefunded Health Care Trust Fund

Other states (e.g.; Ohio and Texas) have established Trust Funds through an increased employee/employer contribution rate; such funds must meet IRS regulations and must be held sacrosanct from raiding for other purposes. Recently proposed legislation suggested this but did not identify the source of income.

## **PENSION REFORM**

### **Preservation and Growth of the Investment Fund**

In 2006, investment income was 68.6% of the total revenues of the fund (\$4,968,618,398), while employer and member contributions were 31.4% (\$2,273,811,562). Year-end assets in the fund were \$43,625,620,270. Therefore, we oppose conversion to a "defined contribution" plan for new employees as it would siphon off the investment fund, which helps to defray the cost to local school districts. A blended Defined Benefit and Defined Contribution System for future retirees with safeguards for current retirees and active employees can become a possible blueprint for the future of the Michigan Public School Employees Retirement System (MPERS). Several states, notably Wisconsin, Nebraska and Ohio, have operated under such systems and that experience may become a guide for developing a Michigan solution.

### **MIP Contribution Rate**

There is a need for shared responsibility in bad investment times. In 2001 and 2002, investments declined by nearly 20% due to a market decline. The entire burden for the loss fell to the employer because the employee MIP contribution is legislatively set at about 3.9%. The contribution rate should remain as it is during good investment times but should be allowed legislatively to float upward as a shared responsibility during poor market times. Changes of the contribution rates to the various facets of the health and retirement program for new hires should be considered as part of the overall system reform package. Legislative consideration should be given to an increase of individual contribution rates if it is actuarially necessary to maintain benefits.

### **Actuarial Study Required For Changes**

An actuarial study is required before change can be enacted. In addition, good business practice demands that the effects of any modifications be clearly understood by all stakeholders, before they are put into effect.

### **Encourage Longer Service**

Changes that encourage school employees to remain active for a longer period can be considered as part of an overall reform program. Care must be taken to protect those who are currently in the retirement system. Another concern is that some groups of employees are unable to earn full retirement credits because of the nature of their assignments; i.e., bus drivers. Any tightening of requirements should include a consideration for employees in defined part-time positions.

## **IN SUMMARY**

**The closure of defects, as currently found in the law in both the pension and health care programs, are of utmost importance to the future of the system and its fiscal integrity.**